

5/18/77

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THE WHITE HOUSE
WASHINGTON

May 18, 1977

Bert Lance:

For your information the attached
Twelfth 1977 Special Message Under
the Impoundment Control Act of
1974 has been signed by the President
and given to Bob Linder for
appropriate delivery.

Rick Hutcheson

cc: Bob Linder

THE WHITE HOUSE
WASHINGTON

Mr. President:

TWO SIGNATURES NEEDED on
attached Message.

Brzezinski concurs with Lance.

Frank Moore strongly agrees
with Jack Watson's comments
about delaying the Message
until after May 17.

See comments by Jack and
Stu, attached.

Rick



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MEMORANDUM FOR: THE PRESIDENT

11 MAY 1977

FROM: Bert Lance

SUBJECT: Twelfth 1977 Special Message under the Impoundment Control Act of 1974

*Check before
F. Moore
Sending J*

The twelfth 1977 special message to the Congress under the Impoundment Control Act of 1974 is attached for your signature.

This special message is composed of one rescission proposal, one new deferral report, and routine supplementary reports for two previously transmitted deferrals. The contents of the special message are discussed below.

- The Navy's Patrol Hydrofoil Missile (PHM) program, funded through the shipbuilding and conversion, Navy account, is the subject of a \$126.2 million rescission proposal. This rescission proposal results from an in-depth review of the PHM ship program. The Secretary of Defense decided, and made you aware, that a second PHM ship should not be procured. The review found that the Navy's one PHM vessel is sufficient to conduct needed research in hydrofoil technology. The operational effectiveness of a second PHM ship—relative to other assets—is insufficient to justify the cost involved.

- Your decision that the Clinch River Breeder Reactor Plant project is not required at this time results in a deferral of \$31.8 million in funds for the Energy Research and Development Administration's (ERDA) operating expenses. ERDA is also submitting to the Congress a change in the project objectives (as required by section 106(b) of Public Law 91-273) that would limit the project to systems design. This change must be pending before the Congress for 45 days before it becomes effective. The deferral action is taken to preclude obligation of funds during the 45-day period. Unless the Congress disapproves the proposed change, the funds will be used, as needed, to pay for systems design.

- A previously transmitted deferral for the construction, general account of the Corps of Engineers has been revised to indicate that the review of all Federal water resources projects has been completed. All funds for water resources projects previously deferred have been released except for \$2.7 million for the Meramec Park Lake project. This deferral will be maintained pending a determination of close-out costs associated with the project.

- A revised deferral of \$7.6 million for the Oregon and California grant lands account of the Bureau of Land Management reflects a routine increase of \$2.2 million over the amount previously reported as deferred. This increase results from a higher unobligated balance being carried into fiscal year 1977 than estimated in the original report.

Recommendation

That the special message be transmitted to the Congress not later than Tuesday, May 17, 1977.

Attachment

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE

WASHINGTON

May 13, 1977

MEMORANDUM FOR THE PRESIDENT

FROM STU EIZENSTAT



SUBJECT BERT LANCE MEMO 5/11/77 ON DEFERRALS

All except the deferral of \$31.8 million for the Clinch River Breeder Reactor (CRBR) are routine and non-controversial. This Clinch River deferral would prevent obligation of funds for new contracts for 45 days, pending completion of Congressional action on the future of the CRBR. I do not expect this action to provoke Congressional opposition, even though the deferral is a potential vehicle for a vote on the issue. Congress is presently considering the CRBR's future in connection with the Energy Research and Development Administration authorization bill, and therefore has simple legislative opportunity to deal with this question squarely. The possibility of a resolution of disapproval of the deferral appears remote; nevertheless, Frank Moore's staff has been informed of the action and will notify appropriate members of Congress. I recommend you sign the attached deferral letter.



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MEMORANDUM FOR: THE PRESIDENT

11 MAY 1977

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B. Lance

SUBJECT: Twelfth 1977 Special Message under the Impoundment Control Act of 1974

The twelfth 1977 special message to the Congress under the Impoundment Control Act of 1974 is attached for your signature.

This special message is composed of one rescission proposal, one new deferral report, and routine supplementary reports for two previously transmitted deferrals. The contents of the special message are discussed below.

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Recommendation

That the special message be transmitted to the Congress not later than Tuesday, May 17, 1977.

Attachment

TO THE CONGRESS OF THE UNITED STATES:

In accordance with the Impoundment Control Act of 1974, I herewith propose rescission of \$126.2 million appropriated for the Patrol Hydrofoil Missile program of the Department of Defense. In addition, I am reporting a deferral of \$31.8 million for the Energy Research and Development Administration, Clinch River Breeder Reactor project, and revisions to two deferrals previously transmitted.

The details of the proposed rescission and the deferrals are contained in the attached reports.

THE WHITE HOUSE,

CONTENTS OF SPECIAL MESSAGE
(in thousands of dollars)

<u>Rescission #</u>	<u>Item</u>	<u>Budget Authority</u>
R77-14	Defense - Military: Shipbuilding and conversion, Navy.....	126,212
 <u>Deferral #</u>		
D77-53A	Defense - Civil: Corps of Engineers Construction, general.....	2,665
D77-16A	Interior: Bureau of Land Management Oregon and California grant lands.....	7,615
D77-58	Energy Research and Development Administration: Operating expenses.....	<u>31,800</u>
	Subtotal, deferrals.....	42,080
	Total, rescissions and deferrals.....	168,292

SUMMARY OF SPECIAL MESSAGES
FOR FY 1977
(in thousands of dollars)

	<u>Rescissions</u>	<u>Deferrals</u>
Twelfth special message:		
New items.....	126,212	31,800
Changes to amounts previously submitted...	<u>—</u>	<u>-2,906</u>
Effect of the twelfth special message...	126,212	28,894
Previous special messages.....	<u>1,040,378</u>	<u>7,220,418</u>
Total amount proposed in special messages...	1,166,590 (in 14 re- scission proposals)	7,249,312 (in 58 deferrals)

NOTE: All amounts listed represent budget authority except for \$134,807,092 consisting of two general revenue sharing deferrals of outlays only (D77-26 and D77-27A). Reports for D77-26 and D77-27A are included in the special messages of October 1, 1976, and December 3, 1976, respectively.

PROPOSED RESCISSION OF BUDGET AUTHORITY

Report Pursuant to Section 1012 of P.L. 93-344

Agency Department of Defense	New budget authority \$ _____ (P.L. _____)
Bureau	Other budgetary resources <u>2,546,067,701</u>
Appropriation title & symbol Shipbuilding and Conversion, Navy 175/91611 176/01611	Total budgetary resources <u>2,546,067,701</u>
	Amount proposed for rescission \$ <u>126,212,000</u>
OMB identification code: 17-1611-0-1-051	Legal authority (in addition to sec. 1012): <input type="checkbox"/> Antideficiency Act
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Other _____
Type of account or fund: <input type="checkbox"/> Annual <input checked="" type="checkbox"/> Multiple-year <u>Sept. 30, 1979</u> <u>Sept. 30, 1980</u> (expiration date) <input type="checkbox"/> No-year	Type of budget authority: <input checked="" type="checkbox"/> Appropriation <input type="checkbox"/> Contract authority <input type="checkbox"/> Other _____

Justification

The funds proposed for rescission were appropriated specifically for the Patrol Hydrofoil Missile (PHM) program. As the result of an in-depth review of the program, it has been decided not to continue with procurement of follow-on Patrol Hydrofoil Missile ships. The Navy presently possesses one Patrol Hydrofoil Missile vessel, which is sufficient to conduct needed research in hydrofoil technology. The operational effectiveness of a second Patrol Hydrofoil Missile ship relative to other assets was judged to be insufficient to justify the cost involved. The accounts affected are as follows:

Shipbuilding and conversion, Navy	175/91611	\$87,212,000
Shipbuilding and conversion, Navy	176/01611	<u>39,000,000</u>
Total		\$126,212,000

Estimated Effects

The Department of the Navy's ability to successfully accomplish its mission would not be affected by this rescission proposal.

Outlay Effects (estimated in millions of dollars)

Comparison with the President's 1978 budget:

1. Budget outlay estimate for FY 1977.....	\$2,983.0
2. Outlay savings, if any, included in the budget outlay estimate.....	0

Current outlay estimate for FY 1977:

3. Without rescission.....	2,983.0
4. With rescission.....	<u>2,978.0</u>
5. Current outlay savings (line 3 - line 4).....	5.0

Outlay savings for FY 1978.....	24.0
---------------------------------	------

Outlay savings for FY 1979.....	26.0
---------------------------------	------

Outlay savings for FY 1980.....	26.0
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DEPARTMENT OF DEFENSE - MILITARY

TITLE IV

PROCUREMENT

Shipbuilding and Conversion, Navy
(Including Transfer of Funds)

Of the amount appropriated under this head in the Department of Defense
Appropriation Act, 1975, for the patrol hydrofoil missile program,
\$87,212,000 are rescinded.

DEPARTMENT OF DEFENSE - MILITARY

TITLE IV

PROCUREMENT

Shipbuilding and Conversion, Navy

Of the amount appropriated under this head in the Department of Defense
Appropriation Act, 1976, for completion of the second PHM patrol hydro-
foil missile ship, \$39,000,000 are rescinded.

(Note: Two language proposals are required since the funds were
appropriated in two separate acts.)

SUPPLEMENTARY REPORT

Report Pursuant to Section 1014(c) of Public Law 93-344

This report revises Deferral No. D77-53 transmitted to the Congress on March 24, 1977, and printed as House Document No. 94-511.

This revision for the construction, general account of the Corps of Engineers updates the basis for and estimated effects of the deferral. The review of water resources projects called for by the President has been completed. All funds for water resources projects previously deferred have been released except for \$2,665,000 for the Meramec Park Lake project that will remain deferred pending a determination of close-out costs.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency <u>Department of the Army</u>	New budget authority <u>\$1,436,745,00</u> (P.L. <u>94-355</u>)
Bureau <u>Corps of Engineers, Civil</u>	Other budgetary resources <u>141,889,60</u>
Appropriation title & symbol <u>Construction, General COE</u> <u>Civil 96X3122</u>	Total budgetary resources <u>1,578,634,60</u>
	Amount to be deferred:
	Part of year \$ <u> </u>
	Entire year <u>2,665,000</u>
OMB identification code: <u>96-3122-0-1-301</u>	Legal authority (in addition to sec. 1013): <input type="checkbox"/> Antideficiency Act
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Other <u> </u>
Type of account or fund: <input type="checkbox"/> Annual	Type of budget authority: <input checked="" type="checkbox"/> Appropriation
<input type="checkbox"/> Multiple-year <u> </u> (expiration date)	<input type="checkbox"/> Contract authority
<input checked="" type="checkbox"/> No-year	<input type="checkbox"/> Other <u> </u>

***Justification**

The review called for by the President of all Federal water resources projects which may be environmentally damaging, economically marginal, or which pose safety hazards has been completed. As a result of the review, no 1978 funding is being requested by the President for the Meramec Park Lake, Missouri project. This deferral of 1977 funds for Meramec Park Lake will be maintained pending a determination of close-out costs associated with the project.

***Estimated Effects**

The deferral of funds for Meramec Park Lake will delay the start of abutment preparation and some land acquisition. One contract at Meramec Park Lake is being delayed by this deferral action.

***Outlay Effect (Estimated in millions of dollars)**

Comparison with President's FY 1978 budget:

- | | |
|---|-----------|
| 1. Budget outlay estimate for FY 1977..... | \$1,400.0 |
| 2. Outlay savings, if any, included in the
budget outlay estimate..... | --- |

* Revised from previous report.

Current Outlay Estimates for 1977:

2

3. Without deferral.....	\$1,398.8
4. With deferral.....	<u>1,397.3</u>
5. Current outlay savings (line 3 minus line 4).....	1.5
Outlay savings for 1978.....	---
Outlay savings for 1979...:	-1.5

Supplementary Report

Report Pursuant to Section 1014(c) of Public Law 93-344.

This report revises Deferral No. D77-16, transmitted to the Congress on October 1, 1976, and printed as House Document No. 94-650.

Deferral No. D77-16, previously reported for the Oregon and California Grant Lands, was based on an estimate of the unobligated balance available at the end of the transition quarter. This supplementary report reflects the actual unobligated balance carried into fiscal 1977.

The revised deferral increases the amount withheld by \$2.1 million from \$5.4 million to \$7.6 million. The deferral is planned to be in effect for all of fiscal 1977.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency Department of the Interior	New budget authority ^{1/} (P.L. 94-373) \$ <u>41,250,000</u>
Bureau Land Management	Other budgetary resources <u>11,221,153</u> *
Appropriation title & symbol 14x5136 Oregon and California Grant Lands	Total budgetary resources <u>52,471,153</u> *
	Amount to be deferred: Part of year \$ _____
	Entire year <u>7,615,053</u> *
OMB identification code: 14-5136-0-2-302	Legal authority (in addition to sec. 1013): <input checked="" type="checkbox"/> Antideficiency Act
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Other _____
Type of account or fund: <input type="checkbox"/> Annual	Type of budget authority: <input type="checkbox"/> Appropriation
<input type="checkbox"/> Multiple-year _____ (expiration date)	<input type="checkbox"/> Contract authority
<input checked="" type="checkbox"/> No-year	<input checked="" type="checkbox"/> Other Appropriated receipts

***Justification :** The Interior and Related Agencies Appropriation Act for 1977 includes an indefinite no-year appropriation equivalent to 25 percent of timber sale receipts from revested Oregon and California Railroad grant lands. The appropriated receipts provide for management, development, and protection of Federal Oregon and California grant lands including the construction and maintenance of roads. Because the appropriation is based on the receipts collected in the same period and the receipts are based on the timber harvested, the total amount which will be available for obligation can only be estimated. Not only may actual receipts vary from estimates, but receipts for the last two months of the fiscal period are not known in time to make programmatic adjustments to offset a possible shortfall between estimated and actual amounts. Deferral is planned to cushion fluctuating receipt levels. This deferral is taken pursuant to the Antideficiency Act (31 U.S.C. 665).

This deferral is consistent with 1977 program plans as described in the President's 1978 Budget. Receipts for FY 1977 are now estimated at \$165 million, thus making \$41,250,000 (25 percent) in new budget authority available under terms of the appropriation. The actual unobligated balance carried into FY 1977 is \$11,221,153. Total resources for this program are \$52,471,153. The current obligation program of \$44,856,100 results in a deferral of \$7,615,053. These funds are proposed for deferral through September 30, 1977.

^{1/}Estimated. The appropriation is for "an amount equivalent to 25 percent of the aggregate of all receipts during the current fiscal year from the revested Oregon and California Railroad grant lands."

*Estimated Effects: There will be no programmatic impact in FY 1977.

*Outlay Effect: There is no outlay effect of this deferral.

*Revised from previous report.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency <u>Energy Research & Development Administration</u>	New budget authority <u>\$4,669,338,000</u> (P.L. <u>94-355</u> , P.L. <u>94-373</u>)
Bureau	Other budgetary resources <u>1,802,626,059</u>
Appropriation title & symbol	Total budgetary resources <u>6,471,964,059</u>
Operating Expenses <u>89X0100</u>	Amount to be deferred:
Clinch River Breeder Reactor Plant Project	Part of year <u>\$ 31,800,000^{1/}</u>
	Entire year _____
OMB identification code: <u>89-0100-0-1-999</u>	Legal authority (in addition to sec. 1013): <input type="checkbox"/> Antideficiency Act
Grant program <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Other _____
Type of account or fund: <input type="checkbox"/> Annual	Type of budget authority: <input checked="" type="checkbox"/> Appropriation
<input type="checkbox"/> Multiple-year _____ (expiration date)	<input type="checkbox"/> Contract authority
<input checked="" type="checkbox"/> No-year	<input type="checkbox"/> Other _____

Justification

The Administration has determined as part of its overall energy policy that the Clinch River Breeder Reactor Plant project (CRBRP) is not required at this time. The Administration proposes to send to the Congress a change to the project objectives, as required by section 106(b) of Public Law 91-273. The revised objective of the project is to complete systems design. This deferral is submitted for the 45-day period during which Congressional action is pending on the proposed revision in order to preclude obligation of funds for new contracts that would not be necessary under the proposed new project objective. If the new project objective is not disapproved by the Congress while the proposed amendment is pending, necessary funds will be made available following the 45-day period to meet the revised project objective.

Estimate Effects

This deferral, pending Congressional action on the proposed modification of the project objectives, will have no effect on current contracts but will preclude obligation of funds for new contracts.

^{1/} None of these funds are included in another Energy Research and Development Administration deferral, D77-55.

Outlay Effect (estimated in millions of dollars)

Comparison with President's 1978 Budget:

1. Budget outlay estimate for 1977.....	\$4,235.2
2. Outlay savings, if any, included in the budget outlay estimate..	0

Current Outlay Estimates for 1977:

3. Without deferral.....	4,000.0
4. With deferral.....	3,992.5
5. Current outlay savings (line 3 - line 4).....	<u>7.5</u> 2/

Outlay savings for FY 1978..... 0

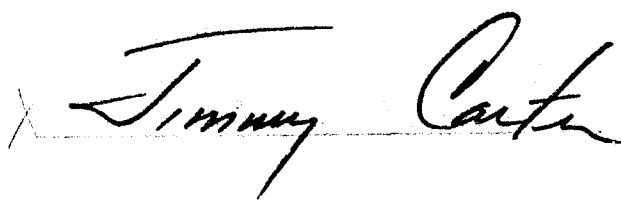
Outlay savings for FY 1979..... 0

2/ This "outlay savings" would be offset in future years beyond FY 1979.

TO THE CONGRESS OF THE UNITED STATES:

In accordance with the Impoundment Control Act of 1974, I herewith propose rescission of \$126.2 million appropriated for the Patrol Hydrofoil Missile program of the Department of Defense. In addition, I am reporting a deferral of \$31.8 million for the Energy Research and Development Administration, Clinch River Breeder Reactor project, and revisions to two deferrals previously transmitted.

The details of the proposed rescission and the deferrals are contained in the attached reports.

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned above a horizontal line.

THE WHITE HOUSE,

THE WHITE HOUSE
WASHINGTON

Date: May 11, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson *attached*
Zbigniew Brzezinski *W* *W*

FOR INFORMATION: The Vice President
Hamilton Jordan *nc*
Frank Moore
Jim Schlesinger

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Bert Lance memo 5/11/77 re Twelfth 1977 Special Message
under the Impoundment Control Act of 1974.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 1:00 P.M.

DAY: FRIDAY

DATE: MAY 13, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: May 11, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat ✓
Jack Watson
Zbigniew Brzezinski

FOR INFORMATION: The Vice President
293 Hamilton Jordan
Frank Moore
Jim Schlesinger

977 MAY 11 PM 2 06

Handwritten:
Camp
Schlesinger
Hutchinson

FROM: Rick Hutcheson, Staff Secretary

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OFFICE OF MANAGEMENT AND BUDGET
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This special message is composed of one rescission proposal, one new deferral report, and routine supplementary reports for two previously transmitted deferrals. The contents of the special message are discussed below.

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Recommendation

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THE WHITE HOUSE,

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(in thousands of dollars)

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D77-58	Energy Research and Development Administration: Operating expenses.....	<u>31,800</u>
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	Total, rescissions and deferrals.....	168,292

SUMMARY OF SPECIAL MESSAGES
FOR FY 1977
(in thousands of dollars)

	<u>Rescissions</u>	<u>Deferrals</u>
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New items.....	126,212	31,800
Changes to amounts previously submitted...	<u>---</u>	<u>-2,906</u>
Effect of the twelfth special message...	126,212	28,894
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Total amount proposed in special messages...	1,166,590 (in 14 re- scission proposals)	7,249,312 (in 58 deferrals)

NOTE: All amounts listed represent budget authority except for \$134,807,092 consisting of two general revenue sharing deferrals of outlays only (D77-26 and D77-27A). Reports for D77-26 and D77-27A are included in the special messages of October 1, 1976, and December 3, 1976, respectively.

PROPOSED RESCISSION OF BUDGET AUTHORITY

Report Pursuant to Section 1012 of P.L. 93-344

Agency Department of Defense	New budget authority \$ _____ (P.L. _____)
Bureau	Other budgetary resources <u>2,546,067,701</u>
Appropriation title & symbol Shipbuilding and Conversion, Navy 175/91611 176/01611	Total budgetary resources <u>2,546,067,701</u>
	Amount proposed for rescission \$ <u>126,212,000</u>
OMB identification code: 17-1611-0-1-051	Legal authority (in addition to sec. 1012): <input type="checkbox"/> Antideficiency Act
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Other _____
Type of account or fund: <input type="checkbox"/> Annual <input checked="" type="checkbox"/> Multiple-year <u>Sept. 30, 1979</u> <u>Sept. 30, 1980</u> (expiration date) <input type="checkbox"/> No-year	Type of budget authority: <input checked="" type="checkbox"/> Appropriation <input type="checkbox"/> Contract authority <input type="checkbox"/> Other _____

Justification

The funds proposed for rescission were appropriated specifically for the Patrol Hydrofoil Missile (PHM) program. As the result of an in-depth review of the program, it has been decided not to continue with procurement of follow-on Patrol Hydrofoil Missile ships. The Navy presently possesses one Patrol Hydrofoil Missile vessel, which is sufficient to conduct needed research in hydrofoil technology. The operational effectiveness of a second Patrol Hydrofoil Missile ship relative to other assets was judged to be insufficient to justify the cost involved. The accounts affected are as follows:

Shipbuilding and conversion, Navy	175/91611	\$87,212,000
Shipbuilding and conversion, Navy	176/01611	<u>39,000,000</u>
Total		\$126,212,000

Estimated Effects

The Department of the Navy's ability to successfully accomplish its mission would not be affected by this rescission proposal.

Outlay Effects (estimated in millions of dollars)

Comparison with the President's 1978 budget:

1. Budget outlay estimate for FY 1977.....	\$2,983.0
2. Outlay savings, if any, included in the budget outlay estimate.....	0

Current outlay estimate for FY 1977:

3. Without rescission.....	2,983.0
4. With rescission.....	<u>2,978.0</u>
5. Current outlay savings (line 3 - line 4).....	5.0
Outlay savings for FY 1978.....	24.0
Outlay savings for FY 1979.....	26.0
Outlay savings for FY 1980.....	26.0

DEPARTMENT OF DEFENSE - MILITARY

TITLE IV

PROCUREMENT

Shipbuilding and Conversion, Navy
(Including Transfer of Funds)

Of the amount appropriated under this head in the Department of Defense Appropriation Act, 1975, for the patrol hydrofoil missile program, \$87,212,000 are rescinded.

DEPARTMENT OF DEFENSE - MILITARY

TITLE IV

PROCUREMENT

Shipbuilding and Conversion, Navy

Of the amount appropriated under this head in the Department of Defense Appropriation Act, 1976, for completion of the second PHM patrol hydrofoil missile ship, \$39,000,000 are rescinded.

(Note: Two language proposals are required since the funds were appropriated in two separate acts.)

SUPPLEMENTARY REPORT

Report Pursuant to Section 1014(c) of Public Law 93-344

This report revises Deferral No. D77-53 transmitted to the Congress on March 24, 1977, and printed as House Document No. 94-511.

This revision for the construction, general account of the Corps of Engineers updates the basis for and estimated effects of the deferral. The review of water resources projects called for by the President has been completed. All funds for water resources projects previously deferred have been released except for \$2,665,000 for the Meramec Park Lake project that will remain deferred pending a determination of close-out costs.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency <u>Department of the Army</u>	New budget authority <u>\$1,436,745,000</u> (P.L. <u>94-355</u>)
Bureau <u>Corps of Engineers, Civil</u>	Other budgetary resources <u>141,889,600</u>
Appropriation title & symbol <u>Construction, General COE</u> <u>Civil 96X3122</u>	Total budgetary resources <u>1,578,634,600</u>
OMB identification code: <u>96-3122-0-1-301</u>	Amount to be deferred: Part of year \$ _____ Entire year <u>2,665,000</u>
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Legal authority (in addition to sec. 1013): <input type="checkbox"/> Antideficiency Act <input type="checkbox"/> Other _____
Type of account or fund: <input type="checkbox"/> Annual <input type="checkbox"/> Multiple-year _____ (expiration date) <input checked="" type="checkbox"/> No-year	Type of budget authority: <input checked="" type="checkbox"/> Appropriation <input type="checkbox"/> Contract authority <input type="checkbox"/> Other _____

***Justification**

The review called for by the President of all Federal water resources projects which may be environmentally damaging, economically marginal, or which pose safety hazards has been completed. As a result of the review, no 1978 funding is being requested by the President for the Meramec Park Lake, Missouri project. This deferral of 1977 funds for Meramec Park Lake will be maintained pending a determination of close-out costs associated with the project.

***Estimated Effects**

The deferral of funds for Meramec Park Lake will delay the start of abutment preparation and some land acquisition. One contract at Meramec Park Lake is being delayed by this deferral action.

***Outlay Effect (Estimated in millions of dollars)**

Comparison with President's FY 1978 budget:

- | | |
|---|-----------|
| 1. Budget outlay estimate for FY 1977..... | \$1,400.0 |
| 2. Outlay savings, if any, included in the
budget outlay estimate..... | --- |

* Revised from previous report.

Current Outlay Estimates for 1977:

2

3. Without deferral.....	\$1,398.8
4. With deferral.....	<u>1,397.3</u>
5. Current outlay savings (line 3 minus line 4).....	1.5
Outlay savings for 1978.....	---
Outlay savings for 1979.....	-1.5

Supplementary Report

Report Pursuant to Section 1014(c) of Public Law 93-344.

This report revises Deferral No. D77-16, transmitted to the Congress on October 1, 1976, and printed as House Document No. 94-650.

Deferral No. D77-16, previously reported for the Oregon and California Grant Lands, was based on an estimate of the unobligated balance available at the end of the transition quarter. This supplementary report reflects the actual unobligated balance carried into fiscal 1977.

The revised deferral increases the amount withheld by \$2.1 million from \$5.4 million to \$7.6 million. The deferral is planned to be in effect for all of fiscal 1977.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency Department of the Interior Bureau Land Management Appropriation title & symbol 14x5136 Oregon and California Grant Lands	<table style="width: 100%;"> <tr> <td style="width: 60%;">New budget authority (P.L. 94-373)</td> <td style="width: 40%; text-align: right;">\$ <u>41,250,000^{1/}</u></td> </tr> <tr> <td>Other budgetary resources</td> <td style="text-align: right;"><u>11,221,153</u>*</td> </tr> <tr> <td>Total budgetary resources</td> <td style="text-align: right;"><u>52,471,153</u>*</td> </tr> <tr> <td colspan="2">Amount to be deferred:</td> </tr> <tr> <td>Part of year</td> <td style="text-align: right;">\$ _____</td> </tr> <tr> <td>Entire year</td> <td style="text-align: right;"><u>7,615,053</u>*</td> </tr> </table>	New budget authority (P.L. 94-373)	\$ <u>41,250,000^{1/}</u>	Other budgetary resources	<u>11,221,153</u> *	Total budgetary resources	<u>52,471,153</u> *	Amount to be deferred:		Part of year	\$ _____	Entire year	<u>7,615,053</u> *
New budget authority (P.L. 94-373)	\$ <u>41,250,000^{1/}</u>												
Other budgetary resources	<u>11,221,153</u> *												
Total budgetary resources	<u>52,471,153</u> *												
Amount to be deferred:													
Part of year	\$ _____												
Entire year	<u>7,615,053</u> *												
OMB identification code: 14-5136-0-2-302	Legal authority (in addition to sec. 1013): <input checked="" type="checkbox"/> Antideficiency Act <input type="checkbox"/> Other _____												
Grant program <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Other _____												
Type of account or fund: <input type="checkbox"/> Annual <input type="checkbox"/> Multiple-year _____ (expiration date) <input checked="" type="checkbox"/> No-year	Type of budget authority: <input type="checkbox"/> Appropriation <input type="checkbox"/> Contract authority <input checked="" type="checkbox"/> Other Appropriated receipts												

***Justification :** The Interior and Related Agencies Appropriation Act for 1977 includes an indefinite no-year appropriation equivalent to 25 percent of timber sale receipts from revested Oregon and California Railroad grant lands. The appropriated receipts provide for management, development, and protection of Federal Oregon and California grant lands including the construction and maintenance of roads. Because the appropriation is based on the receipts collected in the same period and the receipts are based on the timber harvested, the total amount which will be available for obligation can only be estimated. Not only may actual receipts vary from estimates, but receipts for the last two months of the fiscal period are not known in time to make programmatic adjustments to offset a possible shortfall between estimated and actual amounts. Deferral is planned to cushion fluctuating receipt levels. This deferral is taken pursuant to the Antideficiency Act (31 U.S.C. 665).

This deferral is consistent with 1977 program plans as described in the President's 1978 Budget. Receipts for FY 1977 are now estimated at \$165 million, thus making \$41,250,000 (25 percent) in new budget authority available under terms of the appropriation. The actual unobligated balance carried into FY 1977 is \$11,221,153. Total resources for this program are \$52,471,153. The current obligation program of \$44,856,100 results in a deferral of \$7,615,053. These funds are proposed for deferral through September 30, 1977.

1/Estimated. The appropriation is for "an amount equivalent to 25 percent of the aggregate of all receipts during the current fiscal year from the revested Oregon and California Railroad grant lands."

*Estimated Effects: There will be no programmatic impact
in FY 1977.

*Outlay Effect: There is no outlay effect of this deferral.

*Revised from previous report.

DEFERRAL OF BUDGET AUTHORITY
Report Pursuant to Section 1013 of P.L. 93-344

Agency Energy Research & Development Administration	New budget authority (P.L. 94-355, P.L. 94-373)	\$4,669,338,000
Bureau	Other budgetary resources	1,802,626,059
Appropriation title & symbol	Total budgetary resources	6,471,964,059
Operating Expenses 89X0100	Amount to be deferred:	
Clinch River Breeder Reactor Plant Project	Part of year	\$ 31,800,000 ^{1/}
	Entire year	
OMB identification code: 89-0100-0-1-999	Legal authority (in addition to sec. 1013):	
Grant program <input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Antideficiency Act	
Type of account or fund:	<input type="checkbox"/> Other	
<input type="checkbox"/> Annual	Type of budget authority:	
<input type="checkbox"/> Multiple-year (expiration date)	<input checked="" type="checkbox"/> Appropriation	
<input checked="" type="checkbox"/> No-year	<input type="checkbox"/> Contract authority	
	<input type="checkbox"/> Other	

Justification

The Administration has determined as part of its overall energy policy that the Clinch River Breeder Reactor Plant project (CRBRP) is not required at this time. The Administration proposes to send to the Congress a change to the project objectives, as required by section 106(b) of Public Law 91-273. The revised objective of the project is to complete systems design. This deferral is submitted for the 45-day period during which Congressional action is pending on the proposed revision in order to preclude obligation of funds for new contracts that would not be necessary under the proposed new project objective. If the new project objective is not disapproved by the Congress while the proposed amendment is pending, necessary funds will be made available following the 45-day period to meet the revised project objective.

Estimate Effects

This deferral, pending Congressional action on the proposed modification of the project objectives, will have no effect on current contracts but will preclude obligation of funds for new contracts.

^{1/} None of these funds are included in another Energy Research and Development Administration deferral, D77-55.

Outlay Effect (estimated in millions of dollars)

Comparison with President's 1978 Budget:

1. Budget outlay estimate for 1977.....	\$4,235.2
2. Outlay savings, if any, included in the budget outlay estimate..	0

Current Outlay Estimates for 1977:

3. Without deferral.....	4,000.0
4. With deferral.....	3,992.5
5. Current outlay savings (line 3 - line 4).....	<u>7.5</u> 2/

Outlay savings for FY 1978..... 0

Outlay savings for FY 1979..... 0

2/ This "outlay savings" would be offset in future years beyond FY 1979.

THE WHITE HOUSE
WASHINGTON

5/11/77

TO: RICK HUTCHESON

For Your Information: _____

For Appropriate Handling: X

RDL (mcc)
Robert D. Linder

THE WHITE HOUSE

WASHINGTON

May 13, 1977

MEMORANDUM TO: THE PRESIDENT
FROM: Jack Watson *JW*
SUBJECT: BERT LANCE MEMORANDUM DATED MAY 11,
1977 - TWELFTH 1977 SPECIAL MESSAGE
UNDER THE IMFOUNDMENT CONTROL ACT
OF 1974

In the special Congressional election to fill Brock Adams' seat, the question of Seattle's loss of defense contracts has become a major issue (e.g., the conservative Republican candidate has alleged that the B-1 bomber deferral decision has already cost Seattle several thousand jobs; it isn't true, but it is a campaign issue). It would definitely hurt the Democratic candidate, Marvin Durning, whom I talked with briefly in Seattle last week, for us to announce rescission of the Navy's Patrol Hydrofoil Missile Program on or before the election on May 17. I urge that we not send the special message to Congress until after May 17th, and that we make no public announcement of the decision until after the election.

Senator Jackson says that the rescission will result in the loss of 2,000 jobs in Seattle. I do not know if this is true, but there is no question that employment will be substantially affected.

Date: May 11, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Zbigniew Brzezinski

FOR INFORMATION: The Vice President
Hamilton Jordan
Frank Moore
Jim Schlesinger

1977 MAY 11 PM 2 20

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Bert Lance memo 5/11/77 re Twelfth 1977 Special Message
under the Impoundment Control Act of 1974.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 1:00 P.M.

DAY: FRIDAY

DATE: MAY 13, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

Date: May 11, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat
Jack Watson
Zbigniew Brzezinski

FOR INFORMATION: The Vice President
Hamilton Jordan ✓
Frank Moore
Jim Schlesinger

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Bert Lance memo 5/11/77 re Twelfth 1977 Special Message
under the Impoundment Control Act of 1974.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 1:00 P.M.

DAY: FRIDAY

DATE: MAY 13, 1977

ACTION REQUESTED:


☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

Please note other comments below:

☒ No comment. 

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE PRESIDENT'S SCHEDULE

Wednesday - May 18, 1977

8:45 Dr. Zbigniew Brzezinski - The Oval Office.

9:15 Mr. Frank Moore - The Oval Office.

9:30 Congressional Group/Announcement Concerning Foreign Intelligence Surveillance Act of 1977. (Mr. Frank Moore) - The Rose Garden.

10:00 Meeting with Congressional Leaders/SALT.
(60 min.) (Mr. Frank Moore and Dr. Zbigniew Brzezinski).
The Cabinet Room.

11:30 Mr. Jody Powell - The Oval Office.

✓ 11:50 Mr. Lawrence L. Guzik. (Mr. Jack Watson).
(5 min.) The Rose Garden.

12:00 Associate Justice Conley Ingram, Supreme
(10 min.) Court of Georgia. (Ms. Fran Voorde).
The Oval Office.

✓ 12:15 Mr. Warren "Woody" Taylor. (Mr. Richard
(5 min.) Keiser) - The Oval Office.

✓ 12:30 ~~Lunch with Mrs. Rosalynn Carter - Oval Office.~~
*Lunch with Deputy Sec. of Defense
Charles W. DeLoach, Jr. and the Joint Chiefs of Staff.*

1:30 Meeting with Legal Defense Fund Representatives.
(10 min.) (Ms. Bunny Mitchell) - The Cabinet Room.

2:00 Meeting on Tax Reform. (Mr. Stuart Eizenstat)
(60 min.) The Cabinet Room.

Meeting with Congressional Leaders re:

SALT

— 5-18-77

Tip & Bob

Do E - IFI-

Voter registration

Consumer Protection

Schedule breakfast

Rostenkowski

Viet Nam

Sat - SALT - Byrd

Fred S/ Gurne^{Bk} 10

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THE WHITE HOUSE
WASHINGTON

May 18, 1977

RECOMMENDED TELEPHONE CALL

3619
done
J

TO: Jaya Prakash Narayan, Indian elder statesman

DATE: A call must be made before 6:30 p.m. on Wednesday, May 18 -- preferably somewhat earlier.

RECOMMENDED BY: Zbigniew Brzezinski *ZB*

PURPOSE: To wish Narayan well as he leaves the United States following medical treatment here.

BACKGROUND: Narayan has been in the United States for several weeks undergoing treatment that will stabilize his serious kidney condition. He was treated at Seattle; the treatment was successful but it is only designed to buy him more time. He is returning to India for recuperation. You sent him a telegram welcoming him when he arrived in Seattle. Narayan is, as you know, the spiritual heir of Gandhi and the inspiration of the movement that overturned Mrs. Gandhi.

TOPICS OF DISCUSSION:

1. Express your gratification that the operation was successful.
2. Tell Narayan that all friends of India in America wish him Godspeed and a good recuperation in India.
3. We wish him good health not just for his own sake but because of the important contribution he is making to the cause of democracy worldwide.
4. We look forward to good relations between the United States and India.
5. Narayan should give your personal regards to Morarji Desai when he sees him.

Phone no. 212-270-2510

Original to ZB

THE WHITE HOUSE
WASHINGTON

May 18, 1977

Jim Schlesinger

The attached was returned in the
President's outbox and is forwarded
to you for your information.

Rick Hutcheson

Re: Nuclear Power Plant Licensing

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
		EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
		MOORE	Carp/Huron within
		POWELL	48 hours; due to
		WATSON	Staff Secretary
			next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON		KRAFT
	BOURNE		LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS	X	SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE



OFFICE OF THE
CHAIRMAN

THE PRESIDENT HAS SEEN.
UNITED STATES
NUCLEAR REGULATORY COMMISSION
WASHINGTON, D. C. 20555
May 16, 1977

To: Jim S.
J. Polster
10/4/77

State sitting State Planning
include environmental
Swine they trust

MEMORANDUM FOR: Dr. Schlesinger
SUBJECT: Nuclear Power Plant Licensing

Following up on our conversation of last week, I have set down in narrative form my personal recommendations on legislative initiatives that might now be pursued to improve the nuclear power plant design and site approval process. I am having a draft bill prepared to embody these recommendations in a legislative format, and will also send that on to you. In doing this, I have attempted to take account not only of the obvious deficiencies of the present gerrymandered system but also of the need for stability in the process as well as the political realities (in the sense of what is possible in the legislative arena). I must say, however, that what I regarded as improbable last year may well be realizable today, given the climate of opinion on the "energy problem" and related regulatory anomalies -- and the Administration's public commitment to present action.

Two basic concepts should be reflected in any meaningful legislative proposal: separate and early site reviews and decisions (up to 5 years in advance of utility filing of a construction permit application); and pre-reviewed and approved standardized facility designs. Early site reviews and decisions should measurably aid utility planning and add needed predictability to the regulatory process as well as focus public participation at a point in the nuclear plant cycle when that participation can be most effective. Greater use of standardized facility designs, in addition to safety benefits, offers advantages of design, construction, and regulatory efficiency.

good

These two concepts are accommodated -- and accommodated well -- in a legislative proposal which the NRC developed and transmitted to the last Congress. Several variations of this proposal have surfaced in the past three years; however, the basic approach in all of them is to allow the decoupling of site and design reviews; to make attractive (through procedural and other advantages) the use of both "preapproved" sites and designs; but to allow utility use of the present regime (because of "pipeline" and other practical factors) for at least an interim period.

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Wanted
ref 2.

(Compulsory standardization and compulsory early site review, while promising in theory and perhaps viable at some time in the future, may well be unworkable or even counterproductive today. The carrot -- aggressively proffered -- rather than the stick is, in my view, more likely to get results now.)

The referenced concepts mirror real-world developments and have a constituency for acceptance in the private sector as well as in government: we have already made major regulatory progress in the area of standardization; and we have just issued early site review regulations. While more "ideal" proposals can easily be hypothesized and "brand new" systems invented, the destabilizing effect of untested "drastic" approaches on an industry already facing major uncertainties needs to be carefully considered -- not to mention the political realities of enactability.

Other long overdue reforms would also be included, such as:

- abolish the "mandatory hearing" at the construction permit stage when no member of the public asks for a hearing;
- no ACRS review when neither the ACRS nor the NRC believes that a review is warranted;
- allow, when the public interest justifies, operation of a fully-constructed plant following regulatory review but before completion of the public hearing;
- give the NRC authority to encourage license applicants to engage in open and advance planning;
- give the NRC authority to issue a combined construction permit and operating license when a final design is submitted at the construction permit stage.

Public
input
begin
early

* * * * *

The legislative proposals which I have described, while highly desirable, do not go far enough. Although they would, when fully implemented, take NRC off the critical path of the nuclear plant cycle, they do not address two of the more glaring deficiencies of the present overall system: first, the duplication in environmental reviews performed by the States and the NRC; and second, the lack of coordination in the review processes conducted by the host of State and Federal agencies whose imprimaturs are needed before construction of a nuclear power plant can go forward. The following legislative proposals are addressed to those deficiencies:

Duplication of Environmental Reviews

(1) Require, as a pre-condition for the issuance of an NRC construction permit, a decision by an appropriate State body that a nuclear plant and directly associated facilities at the proposed site are environmentally acceptable, and that there is a need for the power to be generated by the plant. The environmental review performed by the State would suffice for purposes of resolving environmental issues respecting whether, where and when a nuclear plant was to be constructed, and no comparable environmental review would be required of the NRC. In making its overall environmental assessment, the State body should be limited, as regards the projected radiological impact of the plant, to data supplied by the NRC. This would avoid fragmented regulation of health and safety.

A variation on this approach would be to have the State environmental review suffice for Federal purposes only in the event that the review were conducted in accordance with criteria established under the aegis of an appropriate Federal agency, for example, the Department of Energy. One of the criteria that might well be promulgated is a requirement for "one-stop", or at least coordinated, State treatment of major required approvals -- need for power, land use, water quality, etc. A "fall-back" alternative to this legislative approach would be authorization for NRC to rely on adequate environmental reviews performed by a State.

Coordination at the Federal Level

(2) Authorize the Department of Energy to establish an interagency coordinating mechanism for nuclear plant projects and to set reasonable "target dates" for completion of decisionmaking on the various Federal actions required for approval of construction and operation of a nuclear power plant. These target dates, which would be established in consultation with the affected agencies, would be met unless an agency determined that there was good cause for not doing so.

NRC Hearing Process

I am less than enchanted with the trial-type format of NRC hearings (now required by law) as desirable means for determining "technological truth" or for resolving the social issues which are more and more becoming ingredients of our licensing process. As our GESMO proceeding has shown (to me at least), a legislative hearing format offers many advantages when skillfully employed and the proposed bill will recommend its use at some stages of the process. But the ethic of a trial-type hearing runs deep and the prospects for legislation conferring accross-the-board flexibility are dim.

However, if hearings on design and site are held 3 to 5 years before a construction permit application is filed (as would be the case under the proposals outlined above), the hearing format becomes far less consequential.

Several concluding points:

1. While the enclosed recommendations are my own, they draw from a legislative proposal submitted by the Commission to the last Congress and on the likely recommendations of a Federal/State study (by NRC, working with the National Governors' Conference) scheduled for completion this month.
2. Mo Udall is setting hearings for mid-June on licensing reform, among other things. I'm fully prepared to state my own views in those hearings; however, it would be desirable to know Administration thinking before then.
3. Don't forget the construction phase of the nuclear plant cycle -- which now encompasses at least 2/3 of the total time involved. There, mission constraints dictate that agencies other than NRC (i.e., DOE) take the lead.

At your suggestion, I am sending a copy of this memorandum to Jack O'Leary and am prepared to discuss its contents with either or both of you.


M. A. Rowden

cc: J. O'Leary, FEA

THE PRESIDENT HAS SEEN.

1:30

Q
—

THE WHITE HOUSE
WASHINGTON
MEETING WITH REPRESENTATIVES OF THE LEGAL DEFENSE FUND

Wednesday, May 18, 1977
1:30 p.m. (10 minutes)
The Cabinet Room

FROM: BUNNY MITCHELL *B*

I. PURPOSE:

To highlight the 3-year, 40th anniversary campaign of the NAACP Legal Defense Fund. Goal: \$18 million.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN:

- A. Background. Since 1939, the Legal Defense Fund has been the legal arm of the civil rights movement. Legal Defense Fund cases have created major legal precedents and benefited numerous people denied equal employment, education, housing and protection of the law.

The Fund's landmark case, Brown v. Board of Education of Topeka (1954) resulted in the Supreme Court's decision prohibiting segregation in public schools. May 17 was the 23rd anniversary of the Court's decision.

The Fund's legal training scholarships and fellowships have assisted over 400 blacks to become practicing attorneys. The 3-year campaign is designed to provide continuing support and visibility for civil rights issues.

- B. Participants. The President, Bunny Mitchell

Jack Greenberg	- LDF Director Counsel
Julius Chambers	- LDF President
William T. Coleman	- LDF Board Chairman (Former Secretary of Trans.)
John H. Filer	- LDF Campaign Chairman (Chairman Aetna Life & Casualty)
Ernest Green	- One of "Little Rock Nine"; Currently Assistant Secretary of Labor for Employment and Training
James Ghee	- Lawyer; plaintiff in 1954 LDF consolidated school segregation case.
Lucinda Todd	- retired teacher from Topeka, Kansas; plaintiff for daughter and witness in 1954 school segregation cases
E.B. Knauff	- LDF Campaign Staff
Betty Stebman	- LDF Campaign Staff
Vi-Curtis Hinton	- LDF Campaign Staff

- C. Press Plan. Photo coverage at beginning of meeting.

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III. TALKING POINTS:

1. Many Administration officials have been associated with the Fund through the years:
 - . Secretary Vance, Secretary Harris, and Secretary Alexander; former board members.
 - . Assistant Attorney General, Drew Days; former Counsel.
 - . Assistant Secretary, Ernie Green admitted to Central High School, Little Rock, because of LDF litigation.
2. The Fund has played a key role in eliminating inequalities in American life; deserves our continuing support.
3. President's Civil Rights Reorganization Project is underway. Howard Glickstein has been appointed as team director. (He is a personal friend of Jack Greenberg.)

Project Staff will consult with groups like the Fund; recommendations due to the President in early August.

THE WHITE HOUSE
WASHINGTON
May 17, 1977

The Vice President
Midge Costanza
Stu Eizenstat
Hamilton Jordan
Bob Lipshutz
Frank Moore
Jody Powell
Jack Watson

The attached is forwarded to
you for your information.

Rick Hucheson

Re: Meeting with Rep. of the
Legal Defense Fund.

5/18

MEETING WITH WARREN
"WOODY" TAYLOR

Wednesday, May 18, 1977
12:15 p.m.
The Oval Office

I. PURPOSE

The above employee of the U. S. Secret Service is being reassigned from the Presidential Protective Division to another office. This is an opportunity to bid him farewell.

II. A. BACKGROUND

Assistant Special Agent in Charge "Woody" Taylor was appointed to the U. S. Secret Service during September of 1961. Since that time he has served at the White House during the Kennedy, Johnson and Ford Administrations.

Woody has also been assigned as Assistant Special Agent in Charge of Secret Service Field Offices in Baltimore, Maryland, and San Francisco, California.

He is being promoted to Special Agent in Charge of the Dignitary Protective Division.

B. PARTICIPANTS

SAIC Richard E. Keiser and ASAIC Warren Taylor.

C. PRESS PLAN

White House Photographer

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11:50 a.m.

THE PRESIDENT HAS BEEN.

THE WHITE HOUSE
WASHINGTON

May 18, 1977

MEMORANDUM FOR: The President
FROM: Jack Watson *Jack*
SUBJECT: Presentation of \$25,000 award to
Lawrence L. Guzick
Wednesday, May 20, 1977
11:50-11:55 a.m., Rose Garden

Lawrence Guzick is Head Engineer in the Aircraft Carrier Ship Logistic Division, Naval Sea Systems Command, Department of Navy. He invented and in 1971 obtained a patent for a device which has been installed on over 100 Naval ships and which has resulted in fuel savings of \$10.8 million.

The Federal Incentive Awards Program, similar to the Georgia State Employees Suggestion Program, allows the Department of Defense to reward Mr. Guzick for his initiative. The amount of the award is based on a formula of estimated tangible and intangible benefits that will result from implementation of the suggestion. Twenty-five thousand dollars is the maximum award available and has been approved only five other times since the program was established in 1954.

Suggested Format--Guests will assemble in the Rose Garden (see attached guest list). You come out to greet Mr. Guzick, Alan Campbell, Graham Claytor, et. al. Suggested talking points describing the device are attached for your use in the presentation.

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for Preservation Purposes**

Attachments

7

Presentation of \$25,000 award to Lawrence L. Guzick

Urs Guzick, wife
Douglas Guzick, son
Cindy Guzick, daughter
Mark Guzick, son

Richard P. Brengel, Civil Service Commission
Clarence R. Bryan, Vice Admiral
Commander, Naval Sea Systems Command

* Alan Campbell, Chairman

Civil Service Commission

* W. Graham Claytor, Jr., Secretary of the Navy

Carl W. Clewlow, Deputy Assistant Secretary
for Civilian Personnel Policy

Captain Robert S. Erasick, USMC, Aide to Administrator Schear

David H. Green, Director of Labor Management Relations

Nadine W. Hafer, Administrator, Naval Incentives Award Program

Edward Hidalgo, Assistant Secretary for Manpower and Logistics

Captain Thomas R. Marnane, Aide to Vice Admiral Bryan

Captain Kleber S. Masterson, Jr., Aide to Secretary Claytor

Admiral Frederick H. Michaelis, Chief of Naval Material

Thomas R. Muir, Deputy Chairman, Navy Incentive Awards Board

Admiral William Myers, Office of Energy, Secretary of Defense

Admiral Harold E. Schear, Acting Chief of Naval Operations

Frank Stafford, Administrator, Naval Sea Systems

Command Awards Program

William C. Valdes, Deputy Assistant Secretary of Defense

Dr. John White, Assistant Secretary for Manpower and Reserve Affairs

THE WHITE HOUSE

WASHINGTON

May 18, 1977

MEMORANDUM TO THE PRESIDENT

FROM: JIM FALLOWS *JMF*
SUBJECT: Federal Incentive Award to Lawrence L. Guzick

Rick Hertzberg has prepared these notes:

1. Mr. Guzick's name is pronounced GUZZ-ick--the first syllable rhymes with "fuzz". He is the Head Engineer in the Aircraft Carrier Ship Logistic Division, Naval Sea Systems Command.

2. This is a high honor for Mr. Guzick. It's only the sixth time that the maximum Federal Incentive Award of \$25,000 has been given since the program was established in 1954--and it is the first \$25,000 award since 1969.

--Incidentally, three of the six awards have now gone to Navy scientists. (The other two were Dr. Alvin Radkowsky, chief scientist on Admiral Rickover's staff, who won in 1964 for inventing "burnable poison," which allows the cores of reactors to last much longer, and Dr. William B. McLean, who won in 1957 for inventing the Sidewinder missile, still in use.)

3. What Mr. Guzick did was to invent the "constant flow drain orifice--you might dub it "the Guzick Gadget." It replaces the conventional high pressure steam trap, which is an automatic valve system for removing condensate (water) from steam systems.

--The conventional steam trap, which dates back almost to the beginning of steam technology, is subject to frequent breakdowns which often lead to severe pressure loss--and when that happens, more fuel must be burned to maintain pressure. Also, the steam trap is inefficient at removing condensate; it requires expensive maintenance; it has a high initial cost; and it erodes quickly and causes erosion in associated piping.

--By contrast, the Gusick Gadget has no moving parts; it requires very little maintenance; it has a low

initial cost; and, most important, it maintains pressure in the system because the condensate flows out continuously through a tiny pinhole opening.

(A sample gadget and a technical paper by Mr. Guzick have also been sent to you.)

4. The energy and other savings that result are very impressive.

--In a two-year test aboard 67 ships, 875,800 barrels of fuel were saved--more than \$10 million worth. In addition, there were maintenance savings of more than half a million dollars.

--The device has been approved for fleet-wide installation--once that is completed, fuel savings of more than \$50 million a year are predicted.

--And because the gadget can be used in almost any compressed steam system, at sea or on land, there is great potential for its use in industry. You might express the hope that industry will follow the Navy's lead--as some companies have already begun to do.

5. Mr Guzick not only showed ingenuity in inventing the device--he also displayed great perserverence in getting it adopted. You might commend his work as an outstanding example of the dedication and creativity of government scientists and engineers, which too often goes unsung.

6. Though the award is \$25,000, the check you will present to Mr. Guzick will be for only \$18,130.31. You could say jokingly that maybe there should be an incentive award for whoever came up with the idea of withholding taxes from these award checks.

NAVMIRO



MANUFACTURING TECHNOLOGY BULLETIN

NAVAL MATERIAL INDUSTRIAL RESOURCES OFFICE
Philadelphia, Pennsylvania 19112

NO. 59
FEBRUARY 1975

The NAVMIRO MANUFACTURING TECHNOLOGY BULLETIN is approved and issued in accordance with NAVSO-P-35 by the NAVAL MATERIAL INDUSTRIAL RESOURCES OFFICE, Philadelphia, Pa., 19112 to all NAVY activities engaged in manufacture, repair, maintenance or development and to selected components of the Army, Air Force and contractors working for the Navy. Its purpose is to publicize new technology, innovative ideas and to initiate new uses of these ideas and techniques throughout the services.

PHASEOUT of High Pressure Steam Traps

by

LAWRENCE L. GUZICK
Naval Sea Systems Command

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the author and
NAVAL ENGINEERS JOURNAL, April 1973

ABSTRACT

Utilizing constant flow drain orifices in place of high pressure steam traps has solved the problem of excessive leakage and slow response of high pressure steam traps. While initial applications have been on shipboard steam systems, this device can be applied to most any compressed air or land based steam system. During comparison tests, these orifices displayed superior operation and maintainability. Large cost savings in installation and in operation result from the use of constant flow drain orifices.

Introduction

Ships of the US Navy have long been plagued by the problem of controlling

the collection and discharge of condensate formed in their high pressure steam lines and equipment. The steam trap, a type of automatic valve which is designed to open when condensate enters, and then close after discharge of the condensate, has generally been employed to keep steam lines and equipment free of condensate. The steam trap is installed in a small branch line which taps the low points of piping and equipment. The steam trap is susceptible to a variety of malfunctions, most significant of which is excessive steam leakage. This leakage causes actuation of pressure relief valves and occasionally causes bulged or collapsed deaerating feed tanks (DFTs). These are the dramatic effects of poor trap performance. There are many more mundane side effects which, while

Original to Central Filed

Guzick

MEMORANDUM

THE PRESIDENT HAS SEEN.

12:00

THE WHITE HOUSE

WASHINGTON

Meeting with Conley Ingram
Wednesday, May 18, 1977
(10 minutes)
The Oval Office
12 noon

(by: Fran Voorde)

I. PURPOSE: a personal visit

II. BACKGROUND, PARTICIPANTS, PRESS:

- A. Background: Justice Ingram wrote informing the President he would be attending the American Law Institute annual meeting May 16-20, and asked to see the President.
- B. Participants: Associate Justice Ingram and The President
- C. Press: White House Photographer Only
- D. Talking Points: Justice Ingram wants to explain personally why he's resigning from the Supreme Court of Georgia, and he wants to tell you what a good job you're doing.

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THE PRESIDENT HAS SEEN.

Office of the Attorney General
Washington, D. C. 20530

May 17, 1977

9:30 a.m.

Copy sent
to President
in Files
5/17/77
Jan

C

MEMORANDUM FOR THE PRESIDENT

Subject: MEETING ON FOREIGN INTELLIGENCE SURVEILLANCE BILL
WITH CONGRESSIONAL LEADERS

Time: 9:30 A.M.

Place: Rose Garden

Date: May 18, 1977

From: Frederick D. Baron *FDB*
Special Assistant to the Attorney General

I. Purpose

The purpose of the meeting is to announce that the foreign intelligence surveillance bill is being sent to Congress with strong administration support and with the hope that a broad bipartisan coalition of sponsors will aid its passage.

II. Background/Participants/Press Plan

A. Background: Last year a similar bill (S. 3197) sponsored by Senators Kennedy and Mathias and by Attorney General Levi passed overwhelmingly in both the Senate Intelligence and Judiciary committees, but it never came to a vote on the floor due to the lateness in the session and provisions of concern to the ACLU. This year the executive branch established a working group of the SCC chaired by the Attorney General to draft a bill which is both satisfactory to the intelligence community and extends additional safeguards to satisfy civil liberties concerns.

B. Participants: The leadership of the Senate and House will be invited, along with the members of Congress with a particular interest in the bill and members of the three Committees through which the bill must pass: Senate Intelligence, Senate Judiciary, and House Judiciary (Kastenmeier Subcommittee). The Attorney General will introduce the key sponsors of the bill--Kennedy, Bayh, Rodino, Mathias, Inouye, Eastland, Thurmond--and the Executive officials who have been instrumental.

C. Press Plan: A statement will be issued by the White House press office on the major features of the bill. The press will be able to ask detailed questions on the bill after the meeting.

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III. Talking Points

1. The "wiretap bill" will require a judicial warrant for all electronic surveillance within the United States conducted for foreign intelligence purposes. Thus, it should eliminate doubt about the legality of such surveillances, confirm the need for such surveillances under the limited circumstances allowed in the bill, and make illegal the abuses of the past.

2. This bill has been developed in close coordination with interested Members of Congress, and this cooperation will continue as the Administration and Congress develop statutory charters for intelligence agencies.

3. In three major respects this bill expands the protections afforded Americans beyond those in last year's bill: (1) it requires a warrant in every situation where a United States citizen or permanent resident alien in the United States is targeted for electronic surveillance, (last year's bill did not extend the warrant requirement to NSA's "watch list" of American citizens); (2) it provides for a judicial review of the Executive certification that the information sought is foreign intelligence information when a United States person is targeted; and (3) the bill constitutes the exclusive means by which electronic surveillance of domestic communications may be conducted. (There is no reservation of inherent presidential power, which last year's bill contained.)

4. While this bill does not affect electronic surveillance of Americans abroad, the Justice Department is already drafting a bill to provide protections for Americans abroad from electronic surveillance for both intelligence and law enforcement purposes.

5. The Administration is committed to giving the Congress the information necessary for effective oversight of intelligence activity. It is a very good sign that a broad coalition of Members of Congress has already indicated a willingness to help with this bill. This bill is the first important step toward a comprehensive package of charter legislation which will clarify the authority of the intelligence agencies.

PARTICIPANTS

The President
Admiral Stansfield Turner (CIA)
Admiral Donald Showers (CIA)
Attorney General Griffin Bell
Zbigniew Brzezinski

SENATORS

Robert C. Byrd
James S. Abourezk
James B. Allen
Birch Bayh
Joseph R. Biden
Clifford P. Case
John Chafee
Alan Cranston
John C. Culver
Dennis DeConcini
James O. Eastland
Jake Garn
Gary Hart
Orrin G. Hatch
William D. Hathaway
Walter D. Huddleston
Daniel K. Inouye
Edward M. Kennedy
Paul Laxalt
Richard G. Lugar
Charles McC Mathias
John L. McClellan
Howard M. Metzenbaum
Robert Morgan
Daniel Patrick Moynihan
Gaylord Nelson
James B. Pearson
William L. Scott
Adlai E. Stevenson, III
Strom Thurmond
Malcolm Wallop

DEPARTMENT OF STATE

Warren Christopher
Herbert J. Hansell
Harold Saunders
Jeffrey H. Smith
Richard Curl

WH STAFF

Frank Moore
Robert Thomson
Valerie Pinson

REPRESENTATIVES

John Ashbrook
Anthony Beilenson
Ed Boland
Jack Brooks
Caldwell Butler
William Cohen
John Conyers
George Danielson
Robert Drinan
Don Edwards
Allen Ertel
Billy Lee Evans
Hamilton Fish
Walter Flowers
Lamar Gudger
Sam Hall
Herbert Harris
Elizabeth Holtzman
William Hughes
Henry Hyde
Barbara Jordan
Robert Kastenmeier
Thomas Kindness
Robert McClory
James Mann
Carlos Moorhead
John Rhodes
Peter Rodino
Jim Santini
Harold Sawyer
John Seiberling
Harold Volkmer
Charles Wiggins
Jim Wright

DEPARTMENT OF JUSTICE

James Adams
Frederick Baron
William Funk
John Hotis
John Harmon
Eric Richard
John Russell
Patricia Wald
Marvin Wall
Michael Kelly

2. Deputy Secretary of State Warren Christopher
3. Deputy Secretary of Defense Charles Duncan; or
David McGiffert, Assistant Secretary of Defense for
International Security Affairs
4. Zbigniew Brzezinski, Assistant to the President for
National Security Affairs
5. James Adams, Federal Bureau of Investigation
6. Vice President Mondale (The Vice President is out of
the country but he deserves special mention for the
leadership he has given to this bill and other matters
relating to protecting the rights of Americans in the
intelligence field.)

LUNCHEON WITH DEPUTY SECRETARY OF DEFENSE CHARLES W. DUNCAN, JR.
AND THE JOINT CHIEFS OF STAFF

12:30 p.m.
Wednesday - May 18, 1977
The Roosevelt Room

THE PRESIDENT
DR. ZBIGNIEW BRZEZINSKI
DEPUTY SEC. OF DEFENSE CHARLES W. DUNCAN, JR.
GENERAL BERNARD W. ROGERS, ARMY CHIEF OF STAFF
ADMIRAL HAROLD E. SHEAR, ACTING, C&N
GENERAL DAVID C. JONES, USAF CHIEF OF STAFF
GENERAL LOUIS H. WILSON, MARINE CORPS COMMANDANT

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

May 17, 1977

MEETING WITH SENATORS REGARDING SALT

Wednesday, May 18, 1977
10:00 a.m. (60 minutes)
Cabinet Room

From: Frank Moore *Fm.*

I. PURPOSE

To discuss the SALT negotiations.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: The President suggested this meeting be set up at Senator Byrd's request.

B. Participants: The President
Dr. Brzezinski
Warren Christopher

Senators: Robert C. Byrd (D-W. Va.)
Alan Cranston (D-Cal.)
Hubert Humphrey (D-Minn.)
James Eastland (D-Miss.)
Daniel Inouye (D-Hawaii)
Henry Jackson (D-Wash.)
Sam Nunn (D-Ga.)
Walter Huddleston (D-Ky.)
Gary Hart (D-Colo.)
Lawton Chiles (D-Fla.)
John Sparkman (D-Ala.)
John C. Stennis (D-Miss.)
Howard H. Baker, Jr. (R-Tenn.)
Ted Stevens (R-Alaska)
Clifford P. Hansen (R-Wyo.)
Carl T. Curtis (R-Nebr.)
Clifford P. Case (R-N.J.)
John Tower (R-Tex.)

Staff: Frank Moore
Dan Tate

C. Press Plan: White House Photo only.

III. TALKING POINTS (None per Z. Brzezinski)

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Salt mty
THE WHITE HOUSE
WASHINGTON

5-18-77

Credibility - Control
Options open
Verification
R & D Continue
Vulnerable if violated
Image of USSR superior
Reduce MLBM's
Heavy Bomber - CM ≠ MRV
Limits on Backfire
Mobile missile

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THE WHITE HOUSE
WASHINGTON

May 18, 1977

Stu Eizenstat -

**The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.**

Rick Hutcheson

Re: Tax Reform Meeting

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
	X	EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
		LIPSHUTZ	Comments due to
		MOORE	Carp/Huron within
		POWELL	48 hours; due to
		WATSON	Staff Secretary
			next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON		KRAFT
	BOURNE		LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS		SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

THE WHITE HOUSE
WASHINGTON

May 17, 1977

Mr. President:

Attached is the memorandum you requested we prepare for the tax reform meeting.

We consult regularly with Joe Pechman and will continue to do so.

Stu Eizenstat

Attachment

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	ENROLLED BILL
		COSTANZA	AGENCY REPORT
	X	EIZENSTAT	CAB DECISION
		JORDAN	EXECUTIVE ORDER
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	LOG IN/TO PRESIDENT TODAY
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	BOURNE		LANCE
	BRZEZINSKI		LINDER
	BUTLER		MITCHELL
	CARP		POSTON
	H. CARTER		PRESS
	CLOUGH		B. RAINWATER
	FALLOWS		SCHLESINGER
	FIRST LADY		SCHNEIDERS
	GAMMILL		SCHULTZE
	HARDEN		SIEGEL
	HOYT		SMITH
	HUTCHESON		STRAUSS
	JAGODA		WELLS
	KING		VOORDE

~~CONFIDENTIAL~~ -- NOT FOR CIRCULATION

THE WHITE HOUSE

WASHINGTON

May 16, 1977

THE PRESIDENT HAS SEEN

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG

SUBJECT:

Tax Reform Meeting
(Prepared at your Request)

*Sta - We made
good progress. You
& Schultz's work is
Larry as next
presentation
is evolved.
Be sure to correlate
with welfare
reform
J*

Purpose of Meeting

We asked you to schedule this meeting with Larry Woodworth and his principal assistants in order to ensure that they fully understand and help you fulfill your commitment to comprehensive tax reform. We hope you will communicate to the Treasury staff your personal mandate for a comprehensive reform effort and a fairer, more progressive tax system, as well as your insistence on making the political decisions on major issues and options yourself (rather than having Treasury make political judgments as to what will be acceptable to Congress and watering down the reform proposals before they even reach your desk).

Fundamental Objectives of Carter Tax Reform

During the campaign and since, you have established three fundamental objectives for tax reform:

1. The reform must be comprehensive. To us, this means a zero-based review of the major provisions of the tax code, particularly the complicated set of exclusions, deductions, and credits ("tax expenditures") which principally favor upper income taxpayers and which cost the Treasury more than \$100 billion per year.
2. The reform must result in a fairer, more progressive tax system. To us, this means achieving a tax system under which the average wage earner will no longer be able to justly complain that he is paying more than his "fair" share while those with greater income are paying less. It means elimination of the tax

DETERMINED TO BE AN ADMINISTRATIVE

MARKING BY Jung DATE 9/27/89

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shelters, excessive business expense deductions, and other special provisions which enable those with access to tax lawyers and accountants to avoid bearing an equitable part of the overall tax burden.

3. The reform must result in a simpler tax system. To us, this means achieving a tax system in which the average taxpayer can fill out his own return. It also means reducing the overall complexity of the tax system by removing a good deal of the special provisions which generate the present demand for tax lawyers and accountants.

Since the present system of exclusions, deductions, and credits is both complicated and heavily weighted in favor of upper income taxpayers, most genuine tax reform measures will naturally move toward your objectives of fairness and simplicity. Accordingly, your objectives of comprehensiveness, fairness, and simplicity work together -- the more thorough the reform, the more likely it will be to yield a fairer, simpler tax system.

Specific Statements on Tax Reform

Set forth below are some specific statements you have made about tax reform. Most, but not necessarily all, of these statements are consistent with the basic objectives of comprehensiveness, a fairer, more progressive tax system, and greater simplicity.

1. You have stated that all income should be treated alike, i.e., capital gains should be taxed the same as other income. Removing the capital gains preference, which is the single greatest source of complexity in the tax code and which almost entirely benefits upper income taxpayers, is basic to a credible tax reform effort and a simpler tax system.
2. You have criticized tax shelters and business expense deductions such as those for first class travel, entertainment, \$50 martini lunches, etc. Removal of these provisions will be an essential element of achieving what the man in the street will regard as a fairer tax system.

3. You have criticized the tax system as being a regressive one which lets the total tax burden shift toward the average wage earner and have called for lower taxes on low and middle income families and a shift of the tax burden to the wealthy and corporations.
4. You have called for repeal of the DISC and foreign deferral provisions. Most tax specialists would consider repeal of these provisions to be an essential part of any tax reform package.
5. You have expressed the desire to complete the tax reform effort without any significant loss of revenue to the Treasury. This will be extremely difficult. The average taxpayer will probably not regard our tax reform effort very favorably if it does not reduce his taxes. In addition, Congress is likely to reduce taxes in the years ahead to offset the effects of inflation on the average taxpayer -- inflation pushes taxpayers into higher tax brackets, even though their real income has not changed. Tax reductions will probably also be required to meet your budget objective of keeping the Federal sector at about 21% of GNP. We think that the average taxpayer deserves a good-sized (\$200-\$300) tax reduction and that being able to promise that kind of a reduction will be essential to the success of our tax reform effort. This will probably mean some loss of revenue to the Treasury. In order to keep the revenue loss within bounds, we will have to take a truly zero-based approach to the existing tax expenditures and be very careful about tax reductions which do not benefit the average taxpayer.
6. You have stated that income should only be taxed once. This reference to integration of the corporate and individual income taxes is perhaps the only statement you have made which may be inconsistent with one of your fundamental objectives, that of a fairer, more progressive tax system. Since corporate shares are disproportionately held by the wealthy, almost all forms of integration will be heavily weighted in favor of upper income taxpayers. Most forms of integration would also be extremely costly -- the Treasury is presently considering a form of integration which would cost approximately \$13.5 billion presently and increase in cost to about \$25 billion by FY 1981. That kind of cost would severely jeopardize your balanced budget goal and other domestic initiatives. Furthermore, the form of

integration being considered by Treasury has been criticized in the past for encouraging the payment of dividends to shareholders, thereby reducing business investment of retained earnings -- that kind of criticism may strengthen business arguments for retention of the existing capital gains preference as a counter-vailing incentive for the retention and investment of earnings.

Status of the Treasury Program

Last week we discussed with Treasury a preliminary outline of their tax reform effort. (The outline may have undergone some change since then.) There is much that is good -- Treasury intends to eliminate the special preference for capital gains and is taking a hard look at some of the more egregious personal deductions and business tax preferences. We do, however, have some serious concerns:

1. Treasury is not conducting a zero-based review of the \$100 billion of tax expenditures. They are making a number of ad hoc, political judgments as to which reform measures would be acceptable to Congress. If this process continues, you will receive a final package which, while meritorious in some respects, will not include some issues and options which you would want to make the final decision on. If you want a really comprehensive review of the tax system with all major issues and options presented to you for decision, you will have to instruct Treasury to that effect.
2. Treasury's preliminary proposals would have a minimal effect, if any, on the progressivity of the tax system. There is also an apparent hesitancy to go after the travel and entertainment expense deductions and the remaining tax shelters. Currently, Treasury is considering revising the present 14-70 rate schedule to 13-50. Even after taking into account substitution of a general credit for the existing \$750 exemption, the appearance of a 20 point (or 2/7) reduction at the top and a 1 point (or 1/14) reduction at the bottom may be devastating to our entire tax reform effort. A reform proposal which does not increase the degree of progressivity and does not eliminate the most publicized tax abuses such as excessive travel and entertainment deductions will not meet anyone's standard for fairness. If you want a fairer, more progressive tax system, you will have to instruct Treasury to prepare proposals which meet that objective.

3. Treasury's efforts should reflect your commitment to the average taxpayer. It is disturbing to read in the Baltimore Sun, the day after your press conference, that: "Although the President denied it yesterday, some key tax planners say the proposals they are considering are tilted largely in favor of tax reductions for business...." As we have indicated, we are particularly concerned with the loss of Federal revenue, the bias in favor of the wealthy, and the general ineffectiveness of the integration proposal Treasury is currently considering.

Recommendations

We think it is crucial that Larry Woodworth and his colleagues recognize their personal responsibility to you and to your fundamental objectives in this tax reform effort. We recommend that you instruct Treasury as follows:

1. You want them to conduct a zero-based review of the major tax expenditures. They should not preempt your decision on any major issue. Short discussion and option papers should be prepared for you on each major issue. You, not Treasury staff, will make the necessary political judgments on what should be in our tax reform package and what should not. (If you approve, we will work out a schedule with Woodworth for your review of these issues. This procedure will involve more of your time, but we think the end product will be worth it. Alternatively, if you prefer, we could work directly with Treasury in developing the tax reform package, keeping you regularly informed and referring any disagreements to you for decision. A July 1 deadline will be difficult to meet no matter what procedure is used. We understand, however, that Chairmen Ullman and Long would much prefer to receive our proposals in early September rather than early July and that sending up the proposals in early July would probably not accelerate the Congressional timetable in any case. You might ask Treasury about this or inquire directly through Frank Moore. In our view, a September deadline would be more conducive to a comprehensive review effort by Treasury and a top quality final package.)

2. Treasury should provide you with proposals which will result in a fairer, more progressive tax system. In addition to conducting a zero-based review of all tax expenditures, Treasury should be particularly careful to follow through on your commitments on tax shelters, travel and entertainment expense deductions, DISC, and deferral.
3. Treasury should focus carefully on the cost of any integration proposal and provide you with a full range of alternatives, including various methods of integration (some forms are less costly than others), dropping integration altogether, and dropping integration but replacing it with other less expensive incentives for business investment.